

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-QSB

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

000-32865

(Commission file number)

WordLogic Corporation

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation or organization)

88-0422023

(IRS Employer
Identification No.)

650 West Georgia Street, Suite 2400

Vancouver, British Columbia, Canada V6B 4N7

(Address of principal executive offices)

(604) 257-3600

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

☒ Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2004 - 21,973,663 shares of common stock

Transitional Small Business Disclosure Format (check one): Yes ☒ No ☐

WORDLOGIC CORPORATION

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WORDLOGIC CORPORATION
(A DEVELOPMENT STAGE COMPANY)

Condensed Consolidated Balance Sheet
(Unaudited)
March 31, 2004

Assets

| | |
|------------------------------------|-------------------------|
| Current assets: | |
| Cash | \$ 12,976 |
| Receivables | <u>5,962</u> |
| Total current assets | 18,938 |
| Due from related parties (Note 2) | 8,093 |
| Property and equipment, net | 16,643 |
| Equipment under capital lease, net | <u>6,086</u> |
| | <u><u>\$ 49,760</u></u> |

Liabilities and Stockholders' Deficit

| | |
|--|---------------------------|
| Current liabilities: | |
| Capital lease obligation | \$ 3,973 |
| Accounts payable: | |
| Related party (Note 2) | 52,920 |
| Other | 373,253 |
| Indebtedness to related party (Note 2) | 38,622 |
| Notes payable to related party (Note 2) | 286,834 |
| Accrued interest payable: | |
| Related party (Note 2) | 87,294 |
| Other | <u>36,848</u> |
| Total current liabilities | 879,744 |
| Long-term debt: | |
| Convertible note payable (Note 3) | <u>667,817</u> |
| Total liabilities | <u><u>1,547,561</u></u> |
| Stockholders' deficit (Note 5): | |
| Common stock | 21,974 |
| Common stock options outstanding – 2,475,000 | 201,220 |
| Additional paid-in capital | 1,337,689 |
| Accumulated deficit | (2,264,854) |
| Deficit accumulated during development stage | (542,793) |
| Cumulative translation adjustment | <u>(251,037)</u> |
| Total shareholders' deficit | <u><u>(1,497,801)</u></u> |
| | <u><u>\$ 49,760</u></u> |

See accompanying notes to condensed consolidated financial statements.

WORDLOGIC CORPORATION
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Condensed Consolidated Statements of Operations
(Unaudited)

| | For the Three Months Ended March 31, | | May 27, 2003 Through March 31, 2004 |
|---|---|---------------------|--|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> |
| Royalty revenue | \$ <u>2,982</u> | \$ <u>3,167</u> | \$ <u>7,955</u> |
| Operating expenses: | | | |
| Stock based compensation (Note 5): | | | |
| Common stock options | - | 201,220 | - |
| Legal services | 37,500 | - | 37,500 |
| Consulting services | - | 1,138 | - |
| Rent, related party (Note 2) | 12,611 | 18,872 | 28,370 |
| Selling, general and administrative | 68,419 | 60,062 | 338,932 |
| Research and development | <u>19,923</u> | <u>5,774</u> | <u>103,815</u> |
| Total operating expenses | <u>137,753</u> | <u>287,066</u> | <u>508,617</u> |
| Loss from operations | (134,771) | (283,899) | (500,662) |
| Interest expense: | | | |
| Related parties (Note 2) | (6,437) | (4,394) | (21,051) |
| Other | <u>(12,392)</u> | <u>(2,612)</u> | <u>(21,080)</u> |
| Loss before income taxes | (153,600) | (290,905) | (542,793) |
| Income tax provision (Note 4) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net loss | <u>\$ (153,600)</u> | <u>\$ (290,905)</u> | <u>\$ (542,793)</u> |
| Basic and diluted loss per share | <u>\$ (0.01)</u> | <u>\$ (0.02)</u> | |
| Weighted average common shares outstanding | <u>21,923,663</u> | <u>18,856,980</u> | |

See accompanying notes to condensed consolidated financial statements.

WORDLOGIC CORPORATION
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Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | For the Three Months Ended March 31, | | May 27, 2003 Through March 31, 2004 |
|---|---|-------------|--|
| | 2004 | 2003 | |
| Net cash used in operating activities | \$ (74,563) | \$ (51,091) | \$ (373,991) |
| Cash flows from investing activities: | | | |
| Purchases of equipment | (1,643) | - | (2,645) |
| Net cash used in investing activities | (1,643) | - | (2,645) |
| Cash flows from financing activities: | | | |
| Proceeds from related party advances (Note 2) | - | 50,850 | - |
| Repayment of related party advances (Note 2) | (5,002) | - | (61,601) |
| Proceeds from promissory notes issued to related parties (Note 2) | 15,750 | - | 102,300 |
| Repayment of related party promissory notes (Note 2) | (23,689) | - | (59,013) |
| Proceeds from convertible promissory note (Note 3) | 85,201 | - | 667,817 |
| Payments on capital lease obligation | (2,358) | (1,767) | (8,098) |
| Proceeds from stock options exercised | - | - | 6,300 |
| Proceeds from sale of common stock | - | 7,217 | - |
| Net cash provided by financing activities | 69,902 | 56,300 | 647,705 |
| Effect of exchange rate changes on cash | 15,528 | - | (259,624) |
| Net change in cash | 9,225 | 5,209 | 11,446 |
| Cash, beginning of period | \$ 3,751 | \$ (3,728) | 1,530 |
| Cash, end of period | \$ 12,976 | \$ 1,481 | \$ 12,976 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for income taxes | \$ - | \$ - | \$ - |
| Cash paid for interest | \$ 31 | \$ - | \$ 1,231 |

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The financial statements presented herein have been prepared by the Company in accordance with the accounting policies in its Form 10-KSB dated December 31, 2003, and should be read in conjunction with the notes thereto.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of operating results for the interim period presented have been made. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the year.

Financial data presented herein are unaudited.

Note 2 - Related Party Transactions

As of December 31, 2003, two affiliates owed the Company a total of \$14,514. During the three months ended March 31, 2004, the affiliates repaid the Company \$6,421. The balance of \$8,093 is included in the accompanying condensed consolidated financial statements as "Due from related parties".

As of December 31, 2003, the Company owed an affiliate \$43,624. During the three months ended March 31, 2004, the Company repaid \$5,002. The remaining balance of \$38,622 is included in the accompanying condensed consolidated financial statements as "Indebtedness to related party".

As of December 31, 2003, the Company owed two shareholders for promissory notes totaling \$294,773. During the three months ended March 31, 2004, a shareholder advanced the Company an additional \$15,750 and the Company repaid \$23,689. The remaining balance of \$286,834 is included in the accompanying condensed consolidated financial statements as "Notes payable to related parties".

As of December 31, 2003, the Company owed an affiliate \$43,624 for expenses paid on behalf of the Company. During the three months ended March 31, 2004, the affiliate paid an additional \$9,296 in expenses on behalf of the Company. The balance of \$52,920 owed to the affiliate at March 31, 2004 is included in the accompanying condensed consolidated financial statements as "Accounts payable, related party".

The Company rents office space from an affiliate on a month-to-month basis. Monthly lease payments vary based on the amount of office space utilized by the Company. Office rent incurred by the Company totaled \$12,611 and \$18,872 for the three months ended March 31, 2004 and 2003, respectively.

Note 3 - Long-Term Debt

As of December 31, 2003, the Company owed an unrelated third party for convertible promissory notes totaling \$582,616. During the three months ended March 31, 2004, the Company received additional proceeds under the notes totaling \$85,201, which increase the balance owed on the notes to \$667,817 at March 31, 2004. The notes carry an eight percent interest rate and mature on March 31, 2006. Principal and accrued interest are payable in any combination of cash and common stock of the Company. The Company can repay principal and interest with common stock at a rate of 85 percent of the stock's market value on the date of advance. Accrued interest payable on the notes totaled \$30,187 at March 31, 2004.

Note 4 - Income Taxes

The Company records its income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". The Company incurred net operating losses for all periods presented resulting in a deferred tax asset, which was fully allowed for; therefore, the net benefit and expense resulted in \$-0- income taxes.

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Note 5 – Shareholders’ Deficit

During the three months ended March 31, 2004, the Company issued 50,000 shares of its common stock to its attorney in exchange for legal services. The transaction was valued based on the value of the services rendered. The Company recorded \$37,500 as stock-based compensation for the three months ended March 31, 2004.

Following is a schedule of changes in shareholders’ deficit for the three months ended March 31, 2004:

| | <u>Common stock</u> | | <u>Common</u> | <u>Additional</u> | <u>Accumulated</u> | <u>Cumulative</u> | |
|--------------------------------|---------------------|------------------|-------------------|---------------------|-----------------------|---------------------|-----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Stock</u> | <u>Paid-In</u> | <u>Deficit</u> | <u>Translation</u> | <u>Total</u> |
| | | | <u>Options</u> | <u>Capital</u> | | <u>Adjustment</u> | |
| Balance, January 1, 2004..... | 21,923,663 | \$ 21,924 | \$ 201,220 | \$ 1,300,239 | \$ (2,654,047) | \$ (266,565) | \$ (1,397,229) |
| Stock issued in exchange for | | | | | | | |
| services (\$.75/share)..... | 50,000 | 50 | - | 37,450 | - | - | 37,500 |
| Comprehensive loss: | | | | | | | |
| Net loss..... | - | - | - | - | (153,600) | - | (153,600) |
| Cumulative translation adj.... | - | - | - | - | - | 15,528 | 15,528 |
| Comprehensive loss..... | - | - | - | - | - | - | (138,072) |
| Balance, March 31, 2004 | <u>21,973,663</u> | <u>\$ 21,974</u> | <u>\$ 201,220</u> | <u>\$ 1,337,689</u> | <u>\$ (2,807,647)</u> | <u>\$ (251,037)</u> | <u>\$ (1,497,801)</u> |

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Item 2. Management's Discussion and Analysis of Financial Condition and Plan of Operations

This statement may include projections of future results and “forward looking statements” as that term is defined in Section 27A of the Securities Act of 1933 as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934 as amended (the “Exchange Act”). All statements that are included in this Quarterly Report, other than statements of historical fact, are forward looking statements. Although management believes that the expectations reflected in these forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

Financial Summary

Results of Operations for the Three-Months Ended March 31, 2004

The Company reports a net loss of \$153,600 for the 3-months ended March 31, 2004 or a \$0.01 loss per share versus a net loss of \$290,905 for the 3-months ended March 31, 2003 or a \$0.02 loss per share.

The net loss for the 3-months ended March 31, 2004 of \$153,600 is comprised of loss from operations of \$134,771 and interest expenses of \$18,829. The comparative net loss for the 3-months ended March 31, 2003 of \$290,905 is comprised of loss from operations of \$283,899 and interest expenses of \$7,006. The decrease in loss from operations of \$149,128 is primarily due to a decrease in Stock-based compensation expense of \$164,858. In the 3-months ended March 31, 2003, \$201,220 was recorded as Stock-based compensation relating to the granting of options to the Company's officers & directors. In the 3-months ended March 31, 2004, \$37,500 was recorded as Stock-based compensation relating to the issuance of common shares in exchange for legal services rendered.

Revenues during this period were \$2,982 vs. \$3,167 for the comparative prior period.

Liquidity and Capital Resources

During the 3-months ended March 31, 2004 the Company's cash position increased by \$9,225. Net cash used in operating activities totaled \$74,563 and \$69,902 was provided through financing activities primarily through the increase in Company's convertible promissory note. \$15,528 was provided through currency fluctuations as a result in the weakening of the Canadian dollar during the period, the domestic currency of the Company's costs of operations.

During the 3-months ended March 31, 2003 the Company's cash position increased by \$5,209. Net cash used in operating activities totaled \$51,091 and \$56,300 was provided through financing activities primarily from related party advances of \$50,850.

The Company has incurred losses since inception and as at March 31, 2004 has a working capital deficiency of \$829,984 and a capital deficit of \$1,497,801. WordLogic has and may continue to supplement cash flows from sales with additional equity and debt financing. Substantially, expanded operations are expected to require additional capital, either from a future offering of equity or the company pursuing other methods of financing, as appropriate.

General

Our common stock trades on the Over-the-Counter Bulletin Board under the OTCBB symbol "WLGC".

The Company has one wholly-owned subsidiary, 602531 British Columbia that was incorporated under the laws of British Columbia on March 2, 2000. This subsidiary holds WordLogic Corporation's intellectual property including its patents and trademarks.

Management Plan of Operations

The WordLogic™ Predictive Keyboard is unique and intuitive information interface for use on computing and communications devices, especially mobile devices that are limited in screen dimensions. The software is compact and compressible allowing it to operate effectively in small handheld devices such as Personal Digital Assistants (PDA's), cell phones, smart phones, tablet computers as well as other touch screen devices.

The WordLogic™ Predictive Keyboard has the ability to learn and adapt to a user's vocabulary, which makes information entry more efficient each time it is used. Its patented word prediction and WordChunking™ technology allows for fast and accurate word completion especially for long or complex words and phrases.

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The Company presently markets its software in seven languages to consumers using an online commerce engine powered by Handango, Inc. In addition, the Company has trial versions of its software available on a number of international websites and has a partnering agreement with Handango, Inc. that includes trial versions of the WordLogic™ Predictive Keyboard with every Dell, Inc. Axim™ Handheld PDA shipped worldwide. By offering trial versions of the WordLogic™ Predictive Keyboard to end-users, the awareness and recognition of the product is increased and future revenue streams are generated.

The Company's growth plan is to generate a significant revenue stream through the enforcement of its intellectual property rights. On March 4, 2004, the Company's first Patent was granted (see below). As its patent portfolio of five additional patents becomes crystallized, the Company will claim royalty rights from any software applications, operating systems or handheld wireless devices that infringe upon existing or future patents. These patents will provide the foundation for Company's expandable technology and are expected provide broad coverage and a commercial pathway to increase revenue streams through the enforcement of intellectual property rights.

In addition, the Company will continue to license its technology to OEM's and other software developers in return for a royalty based on the number of units sold and will continue to market its product to end users via its commerce engine and/or direct marketing programs. There are also numerous vertical market opportunities for the Company in terms of industry-specific applications, the learning disabled market, customized dictionaries and the use of the WordLogic technology by other software developers.

The Company released version 4.1 of its software in May 2004.

Patents & Trademarks

Six individual Patent applications have been filed for "Method, system and media for entering data in a personal computing device" in the United States, Canada and Europe.

On March 4, 2004 European Patent No. 1171813 entitled "Data Entry for Personal Computing Devices" was granted to the Company by the European Patent Office. There are over 7,000 claims allowed under the Patent which are directed to methods and systems for entering data on a personal computing device using a search list, a digital keyboard and a pointing device. Examples of "Pointing Devices" are provided for illustration in the Patent specifications and include a pen, stylus, finger, mouse, trackball or the like. The Patent also indicates that the invention may be used with a variety of "personal computing devices" including personal digital assistants ("PDAs") and other hand-held devices, personal computers including tablets, mobile phones, internet appliances and embedded devices having a graphical display and an input interface using a Pointing Device. In addition, the Patent states the invention may be applied to several different types of digital keyboards and keyboard layouts including traditional keyboards.

In the methods and systems claimed, a digital keyboard is displayed on a user interface when a user is entering text. The user-input signal activates an automated search to obtain a list of complete words based on a partial text entry, and then a search list is provided containing completion candidates for the user to select from. Although not specifically defined in the Patent, this process is commonly known as "word completion" or "word prediction".

Preferred embodiments in the Patent include the activation of automated search when a character on the digital keyboard remains selected by the Pointing Device; the automated search is terminated when the Pointing Device is lifted from the surface of the digital keyboard; and the digital keyboard and the search list are displayed simultaneously while the keyboard is in use.

European Patent No. 1171813 has also been nationalized in Germany, France, The United Kingdom, Italy Finland, Spain, The Netherlands and Portugal.

The other five additional patents are pending in the United States, Canada and Europe.

On October 21, 2003 The Company received Trademark approval for the mark "WordLogic" under Reg. No. 2,774,468 pending. A similar trademark application has been approved and registered in Canada under TMA576,700.

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Item 3. Controls and Procedures

WordLogic Corporation management, including the Principal Executive Officer and Principal Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) and 15d-14(c). This evaluation was conducted within 90 days prior to the filing of this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date the Principal Executive Officer and Principal Financial Officer completed their evaluation.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

In December 2002, the Company filed a Copyright infringement claim against Hewlett-Packard Company ("HP") in the United States District Court for the Northern District of California, San Jose Division.

In March 2002, HP was granted a license to distribute a trial version of the WordLogic Predictive Keyboard. HP inappropriately distributed the fully enabled version to hundreds of thousands of customers. The lawsuit alleged Copyright infringement, but also included claims against HP under California State law for conversion and violation of California's Unfair Business Practices Act.

HP initially challenged WordLogic's right to bring the claims based upon State law under the doctrine of federal preemption, a rule of law that prevents claims based upon State law that conflict with the U.S. Copyright Act. However, shortly thereafter, HP also argued that even the Copyright Act should not apply to thousands of sales that were made to consumers in foreign countries. WordLogic responded by amending its complaint to reassert its State law claims, because it was evident that HP was advancing inconsistent positions by contending on the one hand that the State law claims were preempted, while at the same time, HP was arguing that the federal Copyright Act (which was the basis for the preemption claim) would not apply. HP renewed a motion against a claim in the amended complaint that was based upon the California Unfair Business Practices Act. However, on August 11, 2003, Judge Jeremy Fogel of the Northern District of California announced that he is denying HP's motion to dismiss that claim.

The case is currently in the discovery phase under WordLogic's claims for Copyright Infringement, Conversion, Misappropriation, Unfair Business Practices, and Unjust Enrichment.

Item 2. Change in Securities and Use of Proceeds

During the three months ended March 31, 2004, the Company issued 50,000 shares of its common stock to its attorney in exchange for legal services. The transaction was valued based on the value of the services rendered. These shares were issued as exempt transactions under Section 4(2) of the Securities Act of 1933 and are subject to Rule 144 of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None, for the period ending March 31, 2004.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

Exhibits

WordLogic Corporation includes herewith the following exhibits:

- 10.1 Software Distribution Agreement by and between WordLogic Corporation and Handango, Inc., including Addendum One, as amended, November 15, 2001
- 31.1 Certification of Principal Executive Officer pursuant to Section 302
- 31.2 Certification of Principal Accounting Officer pursuant to Section 302
- 32.1 Certification of Principal Executive Officer pursuant to Section 1350
- 32.2 Certification of Principal Accounting Officer pursuant to Section 1350

Reports on Form 8-K

None, during the period ending March 31, 2004.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WordLogic Corporation

Date: May 10, 2004

By: /s/ Frank R. Evanshen, President
Frank R. Evanshen, President
Principal Executive Officer

Date: May 10, 2004

By: /s/ T. Allen Rose, CFO
T. Allen Rose, Chief Financial Officer
Principal Accounting Officer